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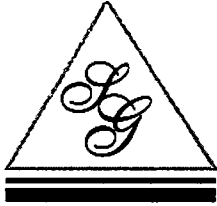
CITY OF HARRISVILLE  
ALCONA COUNTY, MICHIGAN

AUDITORS' REPORT  
YEAR ENDED MARCH 31, 2008

# I\_N\_D\_E\_X

## **AUDITORS' REPORT**

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September 16, 2008

Independent Auditors' Report

Members of the City Council  
City of Harrisville  
Alcona County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Harrisville, Alcona County, Michigan, as of and for the year ended March 31, 2008, which collectively comprise the City's basic financial statements, as listed in the index. These financial statements are the responsibility of the City of Harrisville's management. Our responsibility is to express opinions on these financial statements based on our audit.

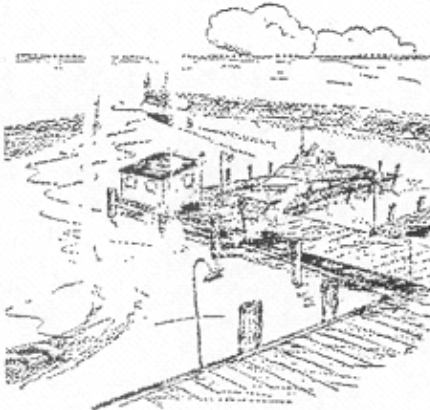
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Harrisville, Alcona County, Michigan, as of March 31, 2008, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2008, on our consideration of the City of Harrisville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Stephenson, Gracik & Co., P.C.*



Harbor of Refuge - Dedicated August 6, 1961

## City of Harrisville Office of the Clerk

P.O. Box 278  
Harrisville, MI 48740  
(989) 724-6666

### MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the City of Harrisville's (the City) financial performance provides an overview of the City's financial activities for the year ended March 31, 2008. The intent of this discussion and analysis is to look at the City's financial performance as a whole. The discussion focuses on the City's primary government and, unless otherwise noted, does not include the component unit reported separately from the primary government.

#### Financial Highlights

- The City's assets exceeded its liabilities by \$2,378,971 (*net assets*) for the fiscal year reported. Of this amount, \$1,528,033 (*unrestricted net assets*) represents the portion available for spending.
- The City's total net assets increased by \$76,693 or 3.3% over the course of the year's operations.
- The City's governmental funds reported a combined ending fund balance of \$744,568 this year, an increase of \$33,292.

#### Overview of the Financial Statements

The financial statements are organized so the reader can understand the City as a financial whole or as an entire operating entity. The statements also provide a detailed look at specific financial conditions.

The City's basic financial statements are comprised of three components: The government-wide financial statements, fund financial statements, and notes to financial statements. The report also contains other supplementary information in addition to the basic financial statements.

#### Government-wide Financial Statements

The *statement of net assets* and the *statement of activities* display information about the City as a whole. These statements include the financial activities of the primary government and its component units except for fiduciary funds. For the most part, the effect of interfund activity has been removed from the statements. The statements distinguish between those activities of the City that are governmental in nature and those that are considered business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues while business-type activities rely to a significant extent on fees and charges for services.

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Program revenues include charges paid by the recipient for the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City with certain limited exceptions. The comparisons of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the City.

With this report, all capital assets and infrastructure are listed for the City of Harrisville. These assets are comprised of buildings and improvements, machinery and equipment, and infrastructure owned by the City. These assets total over \$3 million.

### **Fund Financial Statements**

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: *Governmental, Proprietary and Fiduciary*.

#### ***Governmental Funds:***

Governmental funds are those through which most governmental functions of the City are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

- General Fund - This fund accounts for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from property taxes and state revenue.
- Major Street Fund – This fund is used to account for the maintenance and construction of the City's major street system, including the receipt and expenditure of State motor fuel taxes which are earmarked by law (Act 51 PA 1951, as amended) for major street and highway purposes.
- Minor Street Fund – This fund is used to account for the maintenance and construction of the City's local street system, including the receipt and expenditure of State motor fuel taxes which are earmarked by law (Act 51 PA 1951, as amended) for local street and highway purposes.
- Fire Protection Fund – This fund accounts for the fire department activities.

#### ***Proprietary Funds:***

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

The City's enterprise funds may be used to account for any activity for which a fee is charged to external users (citizens) for goods and services. The following are the City's major enterprise funds:

- Water Fund - This fund accounts for fees collected for water services provided by the City and a city-wide property tax levy.
- Sewer Fund - This fund accounts for fees collected for sewer services provided by the City.

Internal Service Fund – This fund is used to record the financing of services provided by the local unit to other departments, funds and to other governmental units on a cost reimbursement basis. The City uses this fund to account for equipment rental activity.

***Fiduciary Funds:***

Fiduciary fund reporting focuses on net assets and changes in net assets. The City's agency funds account for assets held by the City for political subdivisions in which the City acts as fiscal agent.

**Notes to Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided on the City *government-wide* and *fund* financial statements. The notes to financial statements are presented following the Basic Financial Statements, and provide an expansive and thorough view of various aspects of the audited financial statements.

**Other Information :**

In addition to the basic financial statements and accompanying notes, this report also presents combining and individual fund statements and schedules.

**Government-Wide Financial Analysis**

**Summary of Net Assets:**

The following summarizes the net assets of the City of Harrisville at March 31, 2008:

**Net Assets Summary**

|                             | <b><u>Governmental<br/>Activities</u></b> | <b><u>Business-Type<br/>Activities</u></b> | <b><u>Total</u></b>        |
|-----------------------------|---|--|----------------------------|
| Current Assets              | \$ 752,925                                | \$ 766,192                                 | \$ 1,519,117               |
| Capital Assets - Net        | 213,159                                   | 1,253,729                                  | 1,466,888                  |
| Other Noncurrent Assets     | <u>38,916</u>                             | <u>0</u>                                   | <u>38,916</u>              |
| <b>Total Assets</b>         | <b><u>1,005,000</u></b>                   | <b><u>2,019,921</u></b>                    | <b><u>3,024,921</u></b>    |
|                             |   |  |                            |
| Current Liabilities         | 0   | 23,950                                     | 23,950                     |
| Noncurrent Liabilities      | <u>0</u>                                  | <u>622,000</u>                             | <u>622,000</u>             |
| <b>Total Liabilities</b>    | <b><u>0</u></b>                           | <b><u>645,950</u></b>                      | <b><u>645,950</u></b>      |
|                             |   |  |                            |
| <b>Net Assets</b>           |   |  |                            |
| Invested in Capital Assets, |   |  |                            |
| Net of Related Debt         | 213,159                                   | 607,779                                    | 820,938                    |
| Restricted for Debt Service | 0   | 30,000                                     | 30,000                     |
| Unrestricted                | <u>791,841</u>                            | <u>736,192</u>                             | <u>1,528,033</u>           |
| <b>Total Net Assets</b>     | <b><u>\$ 1,005,000</u></b>                | <b><u>\$ 1,373,971</u></b>                 | <b><u>\$ 2,378,971</u></b> |

**Summary of Changes in Net Assets:**

Following is an analysis of the changes in net assets for 2008.

Generally speaking, the City's net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for acquisition, construction, or improvement of those assets. The City of Harrisville, through its governing body, i.e., City Council, has taken a sensible approach regarding capital asset acquisition and amortization of the incurred debt.

|                                    | <u>Governmental<br/>Activities</u> | <u>Business-Type<br/>Activities</u> | <u>Total</u>        |
|------------------------------------|------------------------------------|-------------------------------------|---------------------|
| <b>Program Revenues:</b>           |                                    |                                     |                     |
| Charges for Services               | \$ 24,519                          | \$ 176,374                          | \$ 200,893          |
| Operating Grants and Contributions | <u>75,469</u>                      | <u>0</u>                            | <u>75,469</u>       |
| <b>Total Program Revenues</b>      | <u>99,988</u>                      | <u>176,374</u>                      | <u>276,362</u>      |
| <b>General Revenues:</b>           |                                    |                                     |                     |
| Property Taxes                     | 100,747                            | 47,446                              | 148,193             |
| State Revenue Sharing              | 42,752                             | 0                                   | 42,752              |
| Rent Income                        | 38,009                             | 0                                   | 38,009              |
| Investment Earnings                | 31,297                             | 23,260                              | 54,557              |
| Other                              | <u>9,206</u>                       | <u>0</u>                            | <u>9,206</u>        |
| <b>Total General Revenues</b>      | <u>222,011</u>                     | <u>70,706</u>                       | <u>292,717</u>      |
| <b>Total Revenues</b>              | <u>321,999</u>                     | <u>247,080</u>                      | <u>569,079</u>      |
| <b>Program Expenses:</b>           |                                    |                                     |                     |
| General Government                 | 117,917                            | 0                                   | 117,917             |
| Public Safety                      | 45,715                             | 0                                   | 45,715              |
| Public Works                       | 106,217                            | 0                                   | 106,217             |
| Community and Economic Development | 1,202                              | 0                                   | 1,202               |
| Recreation and Cultural            | 31,007                             | 0                                   | 31,007              |
| Water Services                     | 0                                  | 107,978                             | 107,978             |
| Sewage Services                    | <u>0</u>                           | <u>82,350</u>                       | <u>82,350</u>       |
| <b>Total Program Expenses</b>      | <u>302,058</u>                     | <u>190,328</u>                      | <u>492,386</u>      |
| Change in Net Assets               | 19,941                             | 56,752                              | 76,693              |
| Beginning Net Assets               | <u>985,059</u>                     | <u>1,317,219</u>                    | <u>2,302,278</u>    |
| Ending Net Assets                  | <u>\$ 1,005,000</u>                | <u>\$ 1,373,971</u>                 | <u>\$ 2,378,971</u> |

### Governmental Activities

The *Statement of Activities* illustrates, by department, the expense incurred and revenue received.

Total governmental activities reveal revenues of \$99,988 from *Charges for Services and Operating Grants*. The *Charges for Services* are fees mainly associated with the collection of property taxes, fine and forfeitures, and licenses and permits. While revenue collected is substantial, operating expenses totaled \$302,058 for these same activities. The largest expenses were incurred by General Government offices (\$117,917), Public Works (\$106,217) and Public Safety (\$45,715).

### Business-Type Activities

The City's main *Business-Type activities* are limited to Water and Sewer Funds.



## **Financial Analysis of Township Funds**

As noted earlier in this report, the City uses fund accounting to ensure and demonstrate compliance with finance-related statutory and legal requirements. A thorough review and examination of fund types will reveal the strengths and weaknesses of its daily operations.

### **Governmental Funds**

Governmental funds are those through which most governmental functions of the City are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds: 1) General fund – accounts for all financial resources, except those required to be accounted for in another fund. Revenues are derived primarily from property taxes and state revenue; 2) Major Street Fund – This fund is used to account for the maintenance and construction of the City's major street system, including the receipt and expenditure of State motor fuel taxes which are earmarked by law (Act 51 PA 1951, as amended) for major street and highway purposes; 3) Minor Street Fund – This fund is used to account for the maintenance and construction of the City's local street system, including the receipt and expenditure of State motor fuel taxes which are earmarked by law (Act 51 PA 1951, as amended) for local street and highway purposes; and 4) Fire Protection Fund – This fund accounts for the fire department activities.

The other governmental fund of the City accounts for resources whose use is restricted for a particular purpose.

This year's City audit, following GASB 34 format, shows five governmental funds. These funds are maintained by the City as separate units in the general ledger.

### **Enterprise Funds**

The City's enterprise funds provide the same type of information found in the government-wide financial statements. Commonly, the water and sewer departments comprise these funds. GASB 34 places such funds under the caption of *Propriety Funds* under the appropriate statements, i.e., *Statement of Net Assets*, *Statement of Cash Flows*, etc.

## **Budgetary Highlights**

The City's budgets are prepared according to Michigan law. The most significant budgeted funds are the General, Major Street, Minor Street and Fire Protection Funds.

During the fiscal year ended March 31, 2008, the City amended the budgets of their major governmental funds a couple of times, none significantly.

### **General Fund**

The General Fund actual revenue was \$197,934. That amount is above the original budget estimate of \$177,509 and the final amended budget of \$179,384. The variance between the actual revenues, the original budget, and the final budget was the result of increased revenues from various sources.

The actual expenditures of the General Fund were \$163,196, which is above the original budget estimate of \$153,379 and below the final amended budget of \$164,594. The variance between the actual expenditures, the original budget, and the final budget was due to changes in spending in various areas.

The General Fund had total revenues of \$197,934 and total expenditures of \$163,196 with an ending fund balance of \$436,649.

### Major Street Fund

The Major Street Fund actual revenue was \$38,746. That amount is below the original budget estimate of \$38,850 and above the final amended budget of \$34,420. The variance between the actual revenues, the original budget, and the final budget was the result of minor changes in revenues from various sources.

The actual expenditures of the Major Street Fund were \$32,005, which is above the original budget estimate of \$22,238 and below the final amended budget of \$32,418. The variance between the actual expenditures, the original budget, and the final budget was due to changes in spending in various areas.

The Major Street Fund had total revenues of \$38,746 and total expenditures of \$32,005 with an ending fund balance of \$118,167.

### Minor Street Fund

The Minor Street Fund actual revenue was \$17,248. That amount is above the original budget estimate of \$13,300 and the final amended budget of \$13,025. The variance between the actual revenues, the original budget, and the final budget was the result of an increase in interest income.

The actual expenditures of the Minor Street Fund were \$22,279, which is above the original budget estimate of \$17,993 and below the final amended budget of \$22,723. The variance between the actual expenditures, the original budget, and the final budget was due to changes in spending in various areas.

The Minor Street Fund had total revenues of \$17,248 and total expenditures of \$22,279 with an ending fund balance of \$122,279.

### Fire Protection Fund

The Fire Protection Fund actual revenue was \$35,961. That amount is below the original and final amended budget estimate of \$39,294. The variance between the actual revenues and the final budget was the result of decreased revenue from contributions from local units.

The actual expenditures of the Fire Protection Fund were \$39,920, which is below the original and final amended budget estimate of \$48,096. The variance between the actual expenditures, the original budget, and the final budget was due to decreased spending in various areas.

The Fire Protection Fund had total revenues of \$35,961 and total expenditures of \$39,920 with an ending fund balance of \$62,198.

## **Capital Asset and Debt Administration**

### **Capital Assets**

Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at *historical cost* or *estimated historical cost* if purchased or constructed. Donated capital assets are recorded at estimated FMV (fair market value) at the date of donation.

The City's infrastructure consists of roads, water and sewer lines. Improvements are capitalized, i.e., depreciated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

Capital Assets – Governmental Activities beginning and ending balance was \$531,218. Governmental Activities Total Capital Assets – Net of Depreciation was \$213,159.

Capital Assets - Business Type Activities beginning balance was \$2,793,973 with an ending balance of \$2,799,144. Business-Type Activities Total Capital Assets – Net of Depreciation was \$1,253,729. An expanded and detailed presentation may be seen in Note 4 of the audit, notes to financial statements.

### **Long-Term Debt**

At year's end, long-term debt (due in more than one year) amounted to \$622,000. Such debt includes *Contracts Payable and Bonds Payable*.

### **Economic Factors and Next Year's Budget and Rates**

The City Council and City staff work together to maintain revenue sources and control expenditures. The main source of revenue is property taxes and is approximately 54% of the City's general fund total revenue.

Another source of revenue is from the State of Michigan. Each year revenue sharing decreases as the State of Michigan is cutting back. The City uses undesignated fund balances to cover shortfalls. The City's General Fund realized a 5% increase in fund balance in fiscal year 2007-2008 and these funds will be used to cover any short falls in revenues.

The majority of revenue generated by the Water and Sewer Funds are derived from charges for water and sewer services. Water and sewer rates did not change during fiscal year 2007.

The City Council and City staff will continue to monitor revenues and expenditures due to ongoing economic conditions.

### **Component Units**

Complete financial statements for the Harrisville Harbor Commission may be obtained from the City of Harrisville's Clerk's office.

### **Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Harrisville Mayor's office, P.O. Box 278, Harrisville, Michigan 48740.

CITY OF HARRISVILLE  
Alcona County, Michigan

STATEMENT OF NET ASSETS  
March 31, 2008

|   | Primary Government  |                     |                     | Component Unit      |
|---|---------------------|---------------------|---------------------|---------------------|
|   | Governmental        | Business-           |                     | Harrisville         |
|   | Activities          | Type Activities     | Total               | Harbor              |
|   |                     |                     |                     | Commission          |
| <u>Assets</u>                                       |                     |                     |                     |                     |
| Cash and Cash Equivalents (Note 2)                  | \$ 280,529          | \$ 487,345          | \$ 767,874          | \$ 13,827           |
| Investments (Note 2)                                | 444,802             | 201,765             | 646,567             | 0                   |
| Receivables:  |                     |                     |                     |                     |
| Property Taxes                                      | 16,825              | 0                   | 16,825              | 0                   |
| Accounts, Net                                       | 0                   | 47,082              | 47,082              | 0                   |
| Due from Component Unit (Note 3)                    | 10,156              | 0                   | 10,156              | 0                   |
| Due from Fiduciary Funds (Note 3)                   | 613                 | 0                   | 613                 | 0                   |
| Prepaid Expenses                                    | 0                   | 0                   | 0                   | 83,543              |
| Inventory   | 0                   | 0                   | 0                   | 24,442              |
| Restricted Assets:                                  |                     |                     |                     |                     |
| Investments (Note 2)                                | 0                   | 30,000              | 30,000              | 0                   |
| Noncurrent Assets:                                  |                     |                     |                     |                     |
| Due from Component Unit (Note 3)                    | 38,916              | 0                   | 38,916              | 0                   |
| Capital Assets, Net (Note 4)                        | <u>213,159</u>      | <u>1,253,729</u>    | <u>1,466,888</u>    | <u>2,056,703</u>    |
| Total Assets  | <u>1,005,000</u>    | <u>2,019,921</u>    | <u>3,024,921</u>    | <u>2,178,515</u>    |
| <u>Liabilities</u>                                  |                     |                     |                     |                     |
| Accrued Interest Payable                            | 0                   | 11,950              | 11,950              | 0                   |
| Accrued Liabilities                                 | 0                   | 0                   | 0                   | 1,301               |
| Due to Primary Government (Note 3)                  | 0                   | 0                   | 0                   | 10,156              |
| Long Term Debt - Due Within One Year (Note 5)       | 0                   | 12,000              | 12,000              | 0                   |
| Noncurrent Liabilities:                             |                     |                     |                     |                     |
| Due to Primary Government (Note 3)                  | 0                   | 0                   | 0                   | 38,916              |
| Long Term Debt - Due In More Than One Year (Note 5) | <u>0</u>            | <u>622,000</u>      | <u>622,000</u>      | <u>0</u>            |
| Total Liabilities                                   | <u>0</u>            | <u>645,950</u>      | <u>645,950</u>      | <u>50,373</u>       |
| <u>Net Assets</u>                                   |                     |                     |                     |                     |
| Invested in Capital Assets, Net of Related Debt     | 213,159             | 607,779             | 820,938             | 2,007,631           |
| Restricted For:                                     |                     |                     |                     |                     |
| Debt Service  | 0                   | 30,000              | 30,000              | 0                   |
| Unrestricted  | <u>791,841</u>      | <u>736,192</u>      | <u>1,528,033</u>    | <u>120,511</u>      |
| Total Net Assets                                    | <u>\$ 1,005,000</u> | <u>\$ 1,373,971</u> | <u>\$ 2,378,971</u> | <u>\$ 2,128,142</u> |

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HARRISVILLE  
Alcona County, Michigan

STATEMENT OF ACTIVITIES  
For the Year Ended March 31, 2008

| Function/Program                  | Net (Expense) Revenue and<br>Changes in Net Assets |                         |  |  |                            |                                 |                  | Component<br>Unit<br>Harrisville<br>Harbor<br>Commission |
|-----------------------------------|--|-------------------------|--|--|----------------------------|---------------------------------|------------------|--|
|                                   | Expenses   | Program Revenues        |  |  | Primary Government         |                                 |                  |  |
|                                   |  | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions | Governmental<br>Activities | Business-<br>Type<br>Activities | Total            |  |
|                                   |  |                         |  |  |                            |                                 |                  |  |
| <u>Primary Government</u>         |  |                         |  |  |                            |                                 |                  |  |
| Governmental Activities:          |  |                         |  |  |                            |                                 |                  |  |
| General Government:               |  |                         |  |  |                            |                                 |                  |  |
| Legislative and Executive         | \$ 9,165   | \$ 0                    | \$ 0                                     | \$ 0                                   | \$ (9,165)                 | \$ 0                            | \$ (9,165)       |  |
| Financial and Tax                 |  |                         |  |  |                            |                                 |                  |  |
| Administration                    | 37,008   | 5,681                   | 0  | 0                                      | (31,327)                   | 0                               | (31,327)         |  |
| Other General Government          | 71,744   | 179                     | 3,851                                    | 0                                      | (67,714)                   | 0                               | (67,714)         |  |
| Public Safety:                    |  |                         |  |  |                            |                                 |                  |  |
| Police                            | 1,948  | 0                       | 0  | 0                                      | (1,948)                    | 0                               | (1,948)          |  |
| Fire                              | 42,909   | 6,500                   | 24,734                                   | 0                                      | (11,675)                   | 0                               | (11,675)         |  |
| Other Public Safety               | 858  | 0                       | 1,625                                    | 0                                      | 767                        | 0                               | 767              |  |
| Public Works:                     |  |                         |  |  |                            |                                 |                  |  |
| Other Public Works                | 106,217  | 0                       | 45,259                                   | 0                                      | (60,958)                   | 0                               | (60,958)         |  |
| Community and Economic            |  |                         |  |  |                            |                                 |                  |  |
| Development                       | 1,202  | 0                       | 0  | 0                                      | (1,202)                    | 0                               | (1,202)          |  |
| Recreation and Cultural           | <u>31,007</u>                                      | <u>12,159</u>           | <u>0</u>                                 | <u>0</u>                               | <u>(18,848)</u>            | <u>0</u>                        | <u>(18,848)</u>  |  |
| Total Governmental<br>Activities  | <u>302,058</u>                                     | <u>24,519</u>           | <u>75,469</u>                            | <u>0</u>                               | <u>(202,070)</u>           | <u>0</u>                        | <u>(202,070)</u> |  |
| Business-Type Activities:         |  |                         |  |  |                            |                                 |                  |  |
| Sewer Services                    | 82,350   | 98,821                  | 0  | 0                                      | 0                          | 16,471                          | 16,471           |  |
| Water Services                    | <u>107,978</u>                                     | <u>77,553</u>           | <u>0</u>                                 | <u>0</u>                               | <u>0</u>                   | <u>(30,425)</u>                 | <u>(30,425)</u>  |  |
| Total Business-Type<br>Activities | <u>190,328</u>                                     | <u>176,374</u>          | <u>0</u>                                 | <u>0</u>                               | <u>0</u>                   | <u>(13,954)</u>                 | <u>(13,954)</u>  |  |
| Total Primary Government          | <u>\$ 492,386</u>                                  | <u>\$ 200,893</u>       | <u>\$ 75,469</u>                         | <u>\$ 0</u>                            | <u>(202,070)</u>           | <u>(13,954)</u>                 | <u>(216,024)</u> |  |

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HARRISVILLE  
Alcona County, Michigan

STATEMENT OF ACTIVITIES  
For the Year Ended March 31, 2008

|                               |                   |                         |  |  | Net (Expense) Revenue and<br>Changes in Net Assets |                                 |                     |                                     |
|-------------------------------|-------------------|-------------------------|--|--|--|---------------------------------|---------------------|-------------------------------------|
| Function/Program              | Expenses          | Program Revenues        |  |  | Primary Government                                 |                                 |                     | Component<br>Unit                   |
|                               |                   | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions | Governmental<br>Activities                         | Business-<br>Type<br>Activities | Total               | Harrisville<br>Harbor<br>Commission |
|                               |                   |                         |  |  |  |                                 |                     |                                     |
| <u>Component Unit</u>         |                   |                         |  |  |  |                                 |                     |                                     |
| Harrisville Harbor Commission | \$ <u>409,036</u> | \$ <u>333,070</u>       | \$ <u>0</u>                              | \$ <u>24,500</u>                       |  |                                 |                     | \$ <u>(51,466)</u>                  |
| General Revenue:              |                   |                         |  |  |  |                                 |                     |                                     |
| Property Taxes Levied For:    |                   |                         |  |  |  |                                 |                     |                                     |
| General Operating             |                   |                         |  |  | \$ 100,747   | \$ 0                            | \$ 100,747          | \$ 0                                |
| Water                         |                   |                         |  |  | 0  | 47,446                          | 47,446              | 0                                   |
| State Revenue Sharing         |                   |                         |  |  | 42,752   | 0                               | 42,752              | 0                                   |
| Interest and Investment       |                   |                         |  |  |  |                                 |                     |                                     |
| Earnings                      |                   |                         |  |  | 31,297   | 23,260                          | 54,557              | 1,935                               |
| Rent Income                   |                   |                         |  |  | 38,009   | 0                               | 38,009              | 0                                   |
| Other                         |                   |                         |  |  | 9,206  | 0                               | 9,206               | 0                                   |
| Total General Revenue         |                   |                         |  |  | <u>222,011</u>                                     | <u>70,706</u>                   | <u>292,717</u>      | <u>1,935</u>                        |
| Change in Net Assets          |                   |                         |  |  | 19,941   | 56,752                          | 76,693              | (49,531)                            |
| Net Assets - Beginning        |                   |                         |  |  | <u>985,059</u>                                     | <u>1,317,219</u>                | <u>2,302,278</u>    | <u>2,177,673</u>                    |
| Net Assets - Ending           |                   |                         |  |  | <u>\$ 1,005,000</u>                                | <u>\$ 1,373,971</u>             | <u>\$ 2,378,971</u> | <u>\$ 2,128,142</u>                 |

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HARRISVILLE  
Alcona County, Michigan

BALANCE SHEET  
GOVERNMENTAL FUNDS  
March 31, 2008

|                                    | General<br>Fund   | Major<br>Street<br>Fund | Minor<br>Street<br>Fund | Fire<br>Protection<br>Fund | Other<br>Governmental<br>Fund<br>Liquor Law<br>Enforcement<br>Fund | Total<br>Governmental<br>Funds |
|------------------------------------|-------------------|-------------------------|-------------------------|----------------------------|--|--------------------------------|
| <u>ASSETS</u>                      |                   |                         |                         |                            |  |                                |
| Cash and Cash Equivalents (Note 2) | \$ 91,307         | \$ 28,638               | \$ 45,838               | \$ 62,198                  | \$ 5,275   | \$ 233,256                     |
| Investments (Note 2)               | 278,832           | 89,529                  | 76,441                  | 0                          | 0  | 444,802                        |
| Receivables:                       |                   |                         |                         |                            |  |                                |
| Property Taxes                     | 16,825            | 0                       | 0                       | 0                          | 0  | 16,825                         |
| Due from Component Unit (Note 3)   | 49,072            | 0                       | 0                       | 0                          | 0  | 49,072                         |
| Due from Other Funds (Note 3)      | <u>613</u>        | <u>0</u>                | <u>0</u>                | <u>0</u>                   | <u>0</u>   | <u>613</u>                     |
| Total Assets                       | <u>\$ 436,649</u> | <u>\$ 118,167</u>       | <u>\$ 122,279</u>       | <u>\$ 62,198</u>           | <u>\$ 5,275</u>  | <u>\$ 744,568</u>              |
| <u>LIABILITIES AND FUND EQUITY</u> |                   |                         |                         |                            |  |                                |
| <u>Liabilities</u>                 | \$ <u>0</u>       | \$ <u>0</u>             | \$ <u>0</u>             | \$ <u>0</u>                | \$ <u>0</u>  | \$ <u>0</u>                    |
| <u>Fund Equity</u>                 |                   |                         |                         |                            |  |                                |
| Fund Balances:                     |                   |                         |                         |                            |  |                                |
| Unreserved:                        |                   |                         |                         |                            |  |                                |
| Designated For:                    |                   |                         |                         |                            |  |                                |
| Street Lighting                    | 5,856             | 0                       | 0                       | 0                          | 0  | 5,856                          |
| Undesignated, Reported In:         |                   |                         |                         |                            |  |                                |
| General Fund                       | 430,793           | 0                       | 0                       | 0                          | 0  | 430,793                        |
| Special Revenue Funds              | <u>0</u>          | <u>118,167</u>          | <u>122,279</u>          | <u>62,198</u>              | <u>5,275</u>   | <u>307,919</u>                 |
| Total Fund Equity                  | <u>436,649</u>    | <u>118,167</u>          | <u>122,279</u>          | <u>62,198</u>              | <u>5,275</u>   | <u>744,568</u>                 |
| Total Liabilities and Fund Equity  | <u>\$ 436,649</u> | <u>\$ 118,167</u>       | <u>\$ 122,279</u>       | <u>\$ 62,198</u>           | <u>\$ 5,275</u>  | <u>\$ 744,568</u>              |

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HARRISVILLE  
Alcona County, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
March 31, 2008

Total Governmental Fund Balances \$ 744,568

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at year end consist of:

|                          |                  |         |
|--------------------------|------------------|---------|
| Capital Asset Cost       | \$ 531,218       |         |
| Accumulated Depreciation | <u>(318,059)</u> |         |
|                          |                  | 213,159 |

Some amounts reported for governmental activities in the statement of net assets are different because the internal service funds assets and liabilities are included with governmental activities.

47,273

Total Net Assets - Governmental Activities \$ 1,005,000

The accompanying notes to financial statements are an integral part of this statement.



CITY OF HARRISVILLE  
Alcona County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended March 31, 2008

|   | General<br>Fund   | Major<br>Street<br>Fund | Minor<br>Street<br>Fund | Fire<br>Protection<br>Fund | Other<br>Governmental<br>Fund<br>Liquor Law<br>Enforcement<br>Fund | Total<br>Governmental<br>Funds |
|---|-------------------|-------------------------|-------------------------|----------------------------|--|--------------------------------|
| <u>Revenue</u>  |                   |                         |                         |                            |  |                                |
| Property Taxes  | \$ 106,428        | \$ 0                    | \$ 0                    | \$ 0                       | \$ 0   | \$ 106,428                     |
| State Revenue   | 42,752            | 33,429                  | 11,830                  | 0                          | 1,625  | 89,636                         |
| Contributions from Local Units  | 0                 | 0                       | 0                       | 24,734                     | 0  | 24,734                         |
| Licenses and Permits  | 95                | 0                       | 0                       | 0                          | 0  | 95                             |
| Charges for Services  | 84                | 0                       | 0                       | 6,500                      | 0  | 6,584                          |
| Interest and Rentals  | 28,348            | 5,144                   | 5,329                   | 0                          | 36   | 38,857                         |
| Other Revenue   | 20,227            | 173                     | 89                      | 4,727                      | 0  | 25,216                         |
| Total Revenue   | <u>197,934</u>    | <u>38,746</u>           | <u>17,248</u>           | <u>35,961</u>              | <u>1,661</u>   | <u>291,550</u>                 |
| <u>Expenditures</u>   |                   |                         |                         |                            |  |                                |
| Current:  |                   |                         |                         |                            |  |                                |
| General Government:   |                   |                         |                         |                            |  |                                |
| Chief Executive   | 9,165             | 0                       | 0                       | 0                          | 0  | 9,165                          |
| Financial and Tax Administration  | 37,008            | 0                       | 0                       | 0                          | 0  | 37,008                         |
| Other General Government  | 71,744            | 0                       | 0                       | 0                          | 0  | 71,744                         |
| Public Safety   | 1,948             | 0                       | 0                       | 39,920                     | 858  | 42,726                         |
| Public Works  | 13,885            | 32,005                  | 22,279                  | 0                          | 0  | 68,169                         |
| Community and Economic Development  | 1,202             | 0                       | 0                       | 0                          | 0  | 1,202                          |
| Recreation and Cultural   | 28,244            | 0                       | 0                       | 0                          | 0  | 28,244                         |
| Total Expenditures  | <u>163,196</u>    | <u>32,005</u>           | <u>22,279</u>           | <u>39,920</u>              | <u>858</u>   | <u>258,258</u>                 |
| Excess of Revenue Over (Under) Expenditures                                     | <u>34,738</u>     | <u>6,741</u>            | <u>(5,031)</u>          | <u>(3,959)</u>             | <u>803</u>   | <u>33,292</u>                  |
| <u>Other Financing Sources (Uses)</u>   |                   |                         |                         |                            |  |                                |
| Operating Transfers In  | 0                 | 0                       | 7,593                   | 12,367                     | 0  | 19,960                         |
| Operating Transfers Out   | (12,367)          | (7,593)                 | 0                       | 0                          | 0  | (19,960)                       |
| Total Other Financing Sources (Uses)  | <u>(12,367)</u>   | <u>(7,593)</u>          | <u>7,593</u>            | <u>12,367</u>              | <u>0</u>   | <u>0</u>                       |
| Excess of Revenue and Other Sources Over<br>(Under) Expenditures and Other Uses | 22,371            | (852)                   | 2,562                   | 8,408                      | 803  | 33,292                         |
| Fund Balances - Beginning of Year   | <u>414,278</u>    | <u>119,019</u>          | <u>119,717</u>          | <u>53,790</u>              | <u>4,472</u>   | <u>711,276</u>                 |
| Fund Balances - End of Year   | <u>\$ 436,649</u> | <u>\$ 118,167</u>       | <u>\$ 122,279</u>       | <u>\$ 62,198</u>           | <u>\$ 5,275</u>  | <u>\$ 744,568</u>              |

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HARRISVILLE  
Alcona County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
For the Year Ended March 31, 2008

|  |                  |
|--|------------------|
| Total Net Change in Fund Balances - Governmental Funds   | \$ 33,292        |
| Amounts reported for governmental activities in the statement of activities are different because:   |                  |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. |                  |
| Current Year Depreciation Expense  | (11,875)         |
| Some amounts reported for governmental activities in the statement of net assets are different because the internal service funds revenue and expenses are included with governmental activities.    | <u>(1,476)</u>   |
| Change in Net Assets of Governmental Activities  | <u>\$ 19,941</u> |

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HARRISVILLE  
Alcona County, Michigan

STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
March 31, 2008

|   | <u>Business-type Activities - Enterprise Funds</u> |                   |                     |
|---|--|-------------------|---------------------|
|   | <u>Water Fund</u>                                  | <u>Sewer Fund</u> | <u>Total</u>        |
| <u>Assets</u>                                     |  |                   |                     |
| Current Assets:                                   |  |                   |                     |
| Cash and Cash Equivalents (Note 2)                | \$ 313,324   | \$ 174,021        | \$ 487,345          |
| Investments (Note 2)                              | 201,765  | 0                 | 201,765             |
| Receivables:                                      |  |                   |                     |
| Accounts, Net                                     | 20,413   | 26,669            | 47,082              |
| Due from Other Funds (Note 3)                     | 162  | 0                 | 162                 |
| Restricted Assets:                                |  |                   |                     |
| Investments (Note 2)                              | <u>0</u>   | <u>30,000</u>     | <u>30,000</u>       |
| Total Current Assets                              | <u>535,664</u>                                     | <u>230,690</u>    | <u>766,354</u>      |
| Noncurrent Assets:                                |  |                   |                     |
| Capital Assets, Net (Note 4)                      | <u>864,534</u>                                     | <u>389,195</u>    | <u>1,253,729</u>    |
| Total Assets                                      | <u>1,400,198</u>                                   | <u>619,885</u>    | <u>2,020,083</u>    |
| <u>Liabilities</u>                                |  |                   |                     |
| Current Liabilities:                              |  |                   |                     |
| Due to Other Funds (Note 3)                       | 0  | 162               | 162                 |
| Accrued Interest Payable                          | 11,950   | 0                 | 11,950              |
| Current Portion of Long-Term Liabilities (Note 5) | <u>12,000</u>                                      | <u>0</u>          | <u>12,000</u>       |
| Total Current Liabilities                         | <u>23,950</u>                                      | <u>162</u>        | <u>24,112</u>       |
| Long-Term Liabilities:                            |  |                   |                     |
| Due in More Than One Year (Note 5)                | <u>466,000</u>                                     | <u>156,000</u>    | <u>622,000</u>      |
| Total Liabilities                                 | <u>489,950</u>                                     | <u>156,162</u>    | <u>646,112</u>      |
| <u>Net Assets</u>                                 |  |                   |                     |
| Invested In Capital Assets, Net of Related Debt   | 374,584  | 233,195           | 607,779             |
| Restricted For:                                   |  |                   |                     |
| Debt Service                                      | 0  | 30,000            | 30,000              |
| Unrestricted                                      | <u>535,664</u>                                     | <u>200,528</u>    | <u>736,192</u>      |
| Total Net Assets                                  | <u>\$ 910,248</u>                                  | <u>\$ 463,723</u> | <u>\$ 1,373,971</u> |

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HARRISVILLE  
Alcona County, Michigan

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
For the Year Ended March 31, 2008

|  | <u>Business-type Activities - Enterprise Funds</u> |                   |                     |
|--|--|-------------------|---------------------|
|  | <u>Water Fund</u>                                  | <u>Sewer Fund</u> | <u>Total</u>        |
| <u>Operating Revenue</u>               |  |                   |                     |
| Charges For Services                   | \$ 76,915  | \$ 98,790         | \$ 175,705          |
| Service Connection Charges             | 560  | 0                 | 560                 |
| Equipment Rental                       | 0  | 0                 | 0                   |
| Refunds                                | 78   | 31                | 109                 |
| Total Operating Revenue                | <u>77,553</u>                                      | <u>98,821</u>     | <u>176,374</u>      |
| <u>Operating Expenses</u>              |  |                   |                     |
| Salaries and Wages                     | 13,482   | 13,482            | 26,964              |
| Payroll Taxes and Employee Benefits    | 6,493  | 6,493             | 12,986              |
| Contractual Services                   | 11,283   | 3,151             | 14,434              |
| Depreciation                           | 34,298   | 33,899            | 68,197              |
| Equipment Rental                       | 3,681  | 4,090             | 7,771               |
| Gasoline and Oil                       | 0  | 0                 | 0                   |
| Insurance and Bonds                    | 2,119  | 611               | 2,730               |
| Office Supplies                        | 276  | 441               | 717                 |
| Operating Supplies                     | 4,833  | 4,054             | 8,887               |
| Repair and Maintenance                 | 1,173  | 2,504             | 3,677               |
| Telephone                              | 1,095  | 797               | 1,892               |
| Utilities                              | 2,438  | 3,478             | 5,916               |
| Other                                  | 2,607  | 550               | 3,157               |
| Total Operating Expenses               | <u>83,778</u>                                      | <u>73,550</u>     | <u>157,328</u>      |
| Operating Income (Loss)                | <u>(6,225)</u>                                     | <u>25,271</u>     | <u>19,046</u>       |
| <u>Nonoperating Revenue (Expenses)</u> |  |                   |                     |
| Property Taxes                         | 47,446   | 0                 | 47,446              |
| Interest and Investment Earnings       | 16,769   | 6,491             | 23,260              |
| Interest and Fees Expense              | (24,200)   | (8,800)           | (33,000)            |
| Total Nonoperating Revenue (Expenses)  | <u>40,015</u>                                      | <u>(2,309)</u>    | <u>37,706</u>       |
| Change in Net Assets                   | 33,790   | 22,962            | 56,752              |
| Net Assets - Beginning of Year         | <u>876,458</u>                                     | <u>440,761</u>    | <u>1,317,219</u>    |
| Net Assets - End of Year               | <u>\$ 910,248</u>                                  | <u>\$ 463,723</u> | <u>\$ 1,373,971</u> |

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HARRISVILLE  
Alcona County, Michigan

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For the Year Ended March 31, 2008

|  | <u>Business-type Activities - Enterprise Funds</u> |                   |                   |
|--|--|-------------------|-------------------|
|  | <u>Water Fund</u>                                  | <u>Sewer Fund</u> | <u>Total</u>      |
| <u>Cash Flows From Operating Activities</u>  |  |                   |                   |
| Cash Received From Customers   | \$ 75,899  | \$ 97,805         | \$ 173,704        |
| Cash Paid to Suppliers for Goods and Services  | (34,050)   | (19,676)          | (53,726)          |
| Cash Paid to Employees for Services  | (19,975)   | (19,975)          | (39,950)          |
| Refunds Received   | 78   | 31                | 109               |
| Net Cash Provided by Operating Activities  | <u>21,952</u>                                      | <u>58,185</u>     | <u>80,137</u>     |
| <u>Cash Flows From Non-Capital Financing Activities</u>  |  |                   |                   |
| Property Taxes Received  | <u>47,446</u>                                      | <u>0</u>          | <u>47,446</u>     |
| <u>Cash Flows From Capital and Related Financing Activities</u>                                |  |                   |                   |
| Acquisition and Construction of Capital Assets   | (5,171)  | 0                 | (5,171)           |
| Principal Paid on Long-Term Debt   | (12,000)   | (20,000)          | (32,000)          |
| Interest and Fees Paid on Long-Term Debt   | <u>(24,500)</u>                                    | <u>(8,800)</u>    | <u>(33,300)</u>   |
| Net Cash Used by Capital and Related Financing Activities                                      | <u>(41,671)</u>                                    | <u>(28,800)</u>   | <u>(70,471)</u>   |
| <u>Cash Flows From Investing Activities</u>  |  |                   |                   |
| Proceeds from Matured Investments  | 0  | 60,000            | 60,000            |
| Interest on Investments  | 7,500  | 6,491             | 13,991            |
| Purchase of Investments  | <u>(3,478)</u>                                     | <u>(60,000)</u>   | <u>(63,478)</u>   |
| Net Cash Provided by Investing Activities  | <u>4,022</u>                                       | <u>6,491</u>      | <u>10,513</u>     |
| Net Increase in Cash and Cash Equivalents  | 31,749   | 35,876            | 67,625            |
| Cash and Cash Equivalents at Beginning of Year (Note 1)  | <u>281,575</u>                                     | <u>138,145</u>    | <u>419,720</u>    |
| Cash and Cash Equivalents at End of Year (Note 1)  | <u>\$ 313,324</u>                                  | <u>\$ 174,021</u> | <u>\$ 487,345</u> |
| <u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</u>  |  |                   |                   |
| Operating Income (Loss)  | \$ (6,225)   | \$ 25,271         | \$ 19,046         |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities: |  |                   |                   |
| Depreciation Expense   | 34,298   | 33,899            | 68,197            |
| Change in Assets and Liabilities:  |  |                   |                   |
| Accounts Receivable  | (1,576)  | (985)             | (2,561)           |
| Accounts Payable   | <u>(4,545)</u>                                     | <u>0</u>          | <u>(4,545)</u>    |
| Net Cash Provided by Operating Activities  | <u>\$ 21,952</u>                                   | <u>\$ 58,185</u>  | <u>\$ 80,137</u>  |

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HARRISVILLE  
Alcona County, Michigan

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
FIDUCIARY FUNDS  
March 31, 2008

|                                       | <u>Current Tax<br/>Collection Fund</u> | <u>Trust and<br/>Agency Fund</u> | <u>Total</u>    |
|---------------------------------------|--|----------------------------------|-----------------|
| <u>ASSETS</u>                         |  |                                  |                 |
| Cash and Cash Equivalents (Note 2)    | \$ <u>613</u>                          | \$ <u>591</u>                    | \$ <u>1,204</u> |
| <u>LIABILITIES</u>                    |  |                                  |                 |
| Due to Other Agencies and Individuals | \$ 0                                   | \$ 591                           | \$ 591          |
| Due to Other Funds (Note 3)           | <u>613</u>                             | <u>0</u>                         | <u>613</u>      |
| Total Liabilities                     | \$ <u>613</u>                          | \$ <u>591</u>                    | \$ <u>1,204</u> |

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HARRISVILLE  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Harrisville (City) conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governments. Private-sector standards of accounting issued after November 30, 1989, are generally followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies:

A. Description of City Operations and Fund Types

The City of Harrisville operates under an elected City Council (ten members) and provides services to its residents in many areas including fire protection, street maintenance, and water and sewer services. All activities over which the City exercises oversight responsibility have been included in the reporting entity. Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters of the entity.

B. Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements of the City are not misleading. The primary government of the City consists of all funds, departments, boards, and agencies that are not legally separate from the City.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs of services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes.

1. Blended Component Units

a. Business-Type Activity and Proprietary Fund Type Blended Component Unit:

**City of Harrisville Water and Sewer Funds** - The City of Harrisville Water and Sewer Funds are reported as if they were part of the primary government because the governing body of the Water and Sewer Funds is the same as the primary governments. The financial activities of the Water and Sewer Funds are recorded in Enterprise Funds. The Water and Sewer Funds use a December 31, 2007 year end which is what is presented in these financial statements. Complete financial statements for the Water and Sewer Funds can be obtained from the City Clerk's office.

2. Discretely Presented Component Unit

The component unit column on the combined financial statements include the financial data of the City's component unit. It is reported in a separate column to emphasize that it is legally separate from the City.

a. Business-Type Activity and Proprietary Fund Type Component Unit:

**Harrisville Harbor Commission** - The component unit column includes the financial data of the Harrisville Harbor Commission. The Harbor Commission is reported in a separate column to emphasize that it is legally separate from the City. The governing body of this component unit is appointed by the City Council. The Harbor Commission uses a December 31, 2007 year end, which is what is presented in these financial statements. Complete financial statements for the Harrisville Harbor Commission can be obtained from the City of Harrisville's Clerk's Office.

CITY OF HARRISVILLE  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation

The City's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

**Government-Wide Financial Statements**

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government and its component units, except for fiduciary funds. For the most part, the effect of interfund activity has been removed from the statements. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues while business-type activities rely to a significant extent on fees and charges for support.

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the City.

**Fund Financial Statements**

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and proprietary fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type, and are excluded from the government-wide financial statements.

D. Fund Accounting

The City uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain City functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

**Governmental Funds**

Governmental funds are those through which most governmental functions of the City are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:



CITY OF HARRISVILLE  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Accounting (Continued)

General Fund - This fund accounts for all financial resources, except those required to be accounted for in another fund. Revenues are derived primarily from property taxes and state revenue.

Major Street Fund - This fund is used to account for the maintenance and construction of the City's major street system, including the receipt and expenditure of State motor fuel taxes which are earmarked by law (Act 51 PA 1951, as amended) for major street and highway purposes.

Minor Street Fund - This fund is used to account for the maintenance and construction of the City's local street system, including the receipt and expenditure of State motor fuel taxes which are earmarked by law (Act 51 PA 1951, as amended) for local street and highway purposes.

Fire Protection Fund - This fund accounts for the fire department activities.

The other governmental fund of the City accounts for resources whose use is restricted for a particular purpose.

**Proprietary Funds**

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

The City's enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds:

Water Fund - This fund accounts for fees collected for water services provided by the City and a city-wide property tax levy.

Sewer Fund - This fund accounts for fees collected for sewer services provided by the City.

**Fiduciary Funds**

Fiduciary fund reporting focuses on net assets and changes in net assets. The City's agency funds account for assets held by the City for political subdivisions in which the City acts as fiscal agent for others. The City uses these funds to account for property tax collections and processing payroll.

E. Measurement Focus

**Government-Wide Financial Statements**

The government-wide financial statements are prepared using a flow of economic resources measurement focus.

All assets and all liabilities associated with the operation of the City are included on the statement of net assets.

CITY OF HARRISVILLE  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Measurement Focus (Continued)

**Fund Financial Statements**

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenue, expenditures, and changes in fund balances reflects the sources (i.e., revenues and other financial sources) and uses (i.e., expenditures and other financial uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

Like the government-wide financial statements, the enterprise funds are accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in revenue, expenses, and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows reflects how the City finances and meets the cash flow needs of its enterprise activities.

F. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide, proprietary and fiduciary funds financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

**Revenues – Exchange and Non-exchange Transactions**

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, sales taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied. Revenue from sales taxes is recognized in the period in which the sales are made. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: sales taxes, charges for services, fines and forfeitures, state-levied locally shared taxes (including sales tax), grants, interest, rent and various other items.

CITY OF HARRISVILLE  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Basis of Accounting (Continued)

**Expenses/Expenditures**

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

G. Cash and Cash Equivalents

For presentation on the financial statements, investments in the cash management pools and investments with an original maturity of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

Investments are reported at fair value, except for repurchase agreements and certificates of deposit which are reported at cost which approximates fair value. Fair value is based on quoted market prices. Mutual funds are reported at current share price.

H. Receivables

Receivables generally consist of accounts (fees) and property taxes. All receivables are net of estimated uncollectible accounts. Receivables are recognized to the extent the amounts are determined material and substantiated, not only by supporting documentation but also by a reasonable systematic method of determining their existence, completeness, valuation, and collectibility.

The allowance for doubtful accounts at March 31, 2008 was \$0 for the primary government and the component unit.

I. Interfund Receivables and Payables

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "due from/to other funds". Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net assets. The interfund balances which remain on the government-wide statement of net assets are those between governmental and business-type activities. These amounts are relected as "Internal Balances". Balances due from/to fiduciary funds and component units are also reported on the government-wide statement of net assets.

J. Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both the government-wide and fund financial statements.

K. Inventory

Inventory consisting entirely of gasoline and diesel fuel is recorded in the Harrisville Harbor Commission at the lower of cost or market, with cost determined on a first-in, first-out basis. All purchases for materials are reflected in expenses when paid in the other funds.

CITY OF HARRISVILLE  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Restricted Assets

Restricted assets are those assets required to meet the covenants and conditions of bond indentures.

M. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements. Capital assets used by the enterprise funds are reported in both the business-type activities column of the government-wide statement of net assets and in the respective funds.

Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The City's infrastructure consists of roads, water and sewer lines. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

Capital assets are depreciated using the straight-line method over the following useful lives:

| <u>Descriptions</u>               | <u>Estimated Lives</u> |
|-----------------------------------|------------------------|
| Land Improvements                 | 20 Years               |
| Buildings, Improvements and Docks | 10-75 Years            |
| Machinery and Equipment           | 5-20 Years             |
| Utility Systems                   | 30-50 Years            |
| Infrastructure                    | 40 Years               |

N. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from the enterprise fund are reported on the enterprise fund statement. In general, payables and accrued liabilities that will be paid from governmental funds are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that are paid from governmental funds are recognized as liabilities in the fund financial statements only to the extent that they are due for payment during the current year.

CITY OF HARRISVILLE  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The City's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

P. Governmental Fund Balance Designations

Designations of portions of the fund balance are established to indicate tentative plans for financial resource utilization in a future period. Fund balance designations have been established for future street lighting expenses.

Q. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise funds. For the City, these revenues are charges for services for water and sewer usage. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. Revenues and expenses not meeting these definitions are reported as nonoperating.

R. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/ expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/ expenses to the funds that initially paid for them are not presented on the financial statements.

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Council and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended March 31, 2008.

T. Budgets and Budgetary Accounting

The City of Harrisville normally follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Prior to March 1, the City Clerk submits to the City Council a proposed operating budget for the fiscal year commencing the following April 1. This operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at the governmental center to obtain taxpayer comments.
3. Prior to April 1, the budget is legally enacted through passage of an ordinance.

CITY OF HARRISVILLE  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. Budgets and Budgetary Accounting (Continued)

4. All budget appropriations lapse at year-end. Budgetary amounts reported herein are as originally adopted, and as amended by the City Council throughout the operating year.

The City adopts budgets for the General Fund and Special Revenue Funds.

The budgets of the City are prepared on the same basis of accounting as the financial statement presentation. The budgets were adopted at the activity level. Revisions that alter the total expenditures of any fund or total department expenditures must be approved by the City Council. The financial statements include budgetary amounts as amended.

U. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - DEPOSITS AND INVESTMENTS

At year-end, the City's deposits and investments were reported in the basic financial statements in the following categories:

|                           | <u>Governmental<br/>Activities</u> | <u>Business-<br/>Type<br/>Activities</u> | <u>Fiduciary<br/>Funds</u> | <u>Total Primary<br/>Government</u> | <u>Component<br/>Unit</u> |
|---------------------------|------------------------------------|--|----------------------------|-------------------------------------|---------------------------|
| Cash and Cash Equivalents | \$ 280,529                         | \$ 487,345                               | \$ 1,204                   | \$ 769,078                          | \$ 13,827                 |
| Investments               | 444,802                            | 201,765                                  | 0                          | 646,567                             | 0                         |
| Restricted Investments    | <u>0</u>                           | <u>30,000</u>                            | <u>0</u>                   | <u>30,000</u>                       | <u>0</u>                  |
| Total                     | <u>\$ 725,331</u>                  | <u>\$ 719,110</u>                        | <u>\$ 1,204</u>            | <u>\$ 1,445,645</u>                 | <u>\$ 13,827</u>          |

The breakdown between deposits and investments is as follows:

|  | <u>Primary<br/>Government</u> | <u>Component<br/>Unit</u> |
|--|-------------------------------|---------------------------|
| Bank Deposits (Checking Accounts and Certificates of Deposit)            | \$ 679,115                    | \$ 13,627                 |
| Investments in Financial Institution Pooled Funds and Money Market Funds | 766,530                       | 0                         |
| Petty Cash and Cash on Hand  | <u>0</u>                      | <u>200</u>                |
| Total  | <u>\$ 1,445,645</u>           | <u>\$ 13,827</u>          |

CITY OF HARRISVILLE  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2008

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

As of March 31, 2008, the City had the following investments.

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Specific Identification Maturities</u> |
|------------------------|-------------------|---|
| Primary Government:    |                   |   |
| Investment Pools       | \$ 765,571        | Daily                                     |
| Money Markets          | <u>959</u>        | Daily                                     |
|                        | <u>\$ 766,530</u> |   |

Interest Rate Risk

In accordance with its investment policy, the City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the City's known cash requirements.

Credit Risk

State law authorizes investments in investment pools as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a local government unit in Michigan. The City's investment pools and money market funds are unrated.

Custodial Credit Risk - Deposits - Primary Government

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of March 31, 2008, \$210,195 of the City's bank balance of \$679,819 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk - Deposits - Component Unit

In the case of deposits, this is the risk that in the event of a bank failure, the component unit's deposits may not be returned to it. As of March 31, 2008, \$0 of the Harbor Commission's bank balance of \$13,642 was exposed to custodial credit risk.

Concentration of Credit Risk

The City will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the City's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

CITY OF HARRISVILLE  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2008

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The City will minimize custodial credit risk, by; limiting investments to the types of securities approved in the City's investment policy which is in accordance with State law.

Foreign Currency Risk

The City's investment policy does not address foreign currency risk.

Investments

The City Council has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the City to deposit and invest in the following:

- λ Accounts of federally insured banks, credit unions and savings and loan associations
- λ Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- λ United States government or federal agency obligation repurchase agreements
- λ Banker's acceptances of United States banks
- λ Commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase
- λ Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The City's deposits and investments are in accordance with statutory authority.



CITY OF HARRISVILLE  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2008

NOTE 3 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables as of March 31, 2008 were as follows:

| <u>Fund</u>                  | <u>Interfund<br/>Receivable</u> | <u>Interfund<br/>Payable</u> |
|------------------------------|---------------------------------|------------------------------|
| Major Governmental Funds:    |                                 |                              |
| General Fund                 | \$ <u>613</u>                   | \$ <u>0</u>                  |
| Major Enterprise Funds:      |                                 |                              |
| Water Fund                   | 162                             | 0                            |
| Sewer Fund                   | <u>0</u>                        | <u>162</u>                   |
| Total Major Enterprise Funds | <u>162</u>                      | <u>162</u>                   |
| Fiduciary Funds              | <u>0</u>                        | <u>613</u>                   |
|                              | \$ <u><u>775</u></u>            | \$ <u><u>775</u></u>         |

The amounts of interfund receivables and payables for individual funds as of March 31, 2008 were as follows:

| <u>Fund</u>                    | <u>Interfund<br/>Receivable</u> | <u>Fund</u>                      | <u>Interfund<br/>Payable</u> |
|--------------------------------|---------------------------------|----------------------------------|------------------------------|
| <u>Primary Government</u>      |                                 | <u>Primary Government</u>        |                              |
| General Fund                   | \$ 613                          | Current Tax Collection Fund      | \$ 613                       |
| Water Fund                     | <u>162</u>                      | Sewer Fund                       | <u>162</u>                   |
| Total                          | \$ <u><u>775</u></u>            | Total                            | \$ <u><u>775</u></u>         |
| <u>Due from Component Unit</u> |                                 | <u>Due to Primary Government</u> |                              |
| General Fund                   | \$ <u><u>49,072</u></u>         | Harrisville Harbor Commission    | \$ <u><u>49,072</u></u>      |

These balances result from the time lag between the dates that interfund goods and services are provided, transactions are recorded in the accounting system, and payments between funds are made.

The amount of interfund receivable/payable between the General Fund and the Harrisville Harbor Commission represents a loan to help pay for the construction of the new harbor building project. The amount due at March 31, 2008 was \$49,072 of which \$10,156 was the estimated current portion.

CITY OF HARRISVILLE  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2008

NOTE 4 - CAPITAL ASSETS

Capital asset activity of the primary government for the fiscal year ended March 31, 2008, was as follows:

|                                       | Balance<br>04/01/07 | Additions          | Deletions   | Balance<br>03/31/08 |
|---------------------------------------|---------------------|--------------------|-------------|---------------------|
| <u>Governmental Activities</u>        |                     |                    |             |                     |
| Capital Assets Being Depreciated:     |                     |                    |             |                     |
| Buildings and Improvements            | \$ 262,050          | \$ 0               | \$ 0        | \$ 262,050          |
| Machinery and Equipment               | 153,282             | 0                  | 0           | 153,282             |
| Infrastructure - Roads                | 115,886             | 0                  | 0           | 115,886             |
| Subtotal                              | <u>531,218</u>      | <u>0</u>           | <u>0</u>    | <u>531,218</u>      |
| Less Accumulated Depreciation for:    |                     |                    |             |                     |
| Buildings and Improvements            | 177,088             | 5,989              | 0           | 183,077             |
| Machinery and Equipment               | 113,207             | 14,049             | 0           | 127,256             |
| Infrastructure - Roads                | 4,829               | 2,897              | 0           | 7,726               |
| Subtotal                              | <u>295,124</u>      | <u>22,935</u>      | <u>0</u>    | <u>318,059</u>      |
| Governmental Activities Total         |                     |                    |             |                     |
| Capital Assets - Net of Depreciation  | <u>\$ 236,094</u>   | <u>\$ (22,935)</u> | <u>\$ 0</u> | <u>\$ 213,159</u>   |
|                                       | Balance<br>04/01/07 | Additions          | Deletions   | Balance<br>03/31/08 |
| <u>Business-Type Activities</u>       |                     |                    |             |                     |
| Capital Assets Not Being Depreciated: |                     |                    |             |                     |
| Land                                  | \$ 18,000           | \$ 0               | \$ 0        | \$ 18,000           |
| Capital Assets Being Depreciated:     |                     |                    |             |                     |
| Machinery and Equipment               | 59,161              | 5,171              | 0           | 64,332              |
| Distribution and Collection Systems   | 2,716,812           | 0                  | 0           | 2,716,812           |
| Subtotal                              | <u>2,775,973</u>    | <u>5,171</u>       | <u>0</u>    | <u>2,781,144</u>    |
| Less Accumulated Depreciation         | <u>1,477,218</u>    | <u>68,197</u>      | <u>0</u>    | <u>1,545,415</u>    |
| Business-Type Activities Total        |                     |                    |             |                     |
| Capital Assets - Net of Depreciation  | <u>\$ 1,316,755</u> | <u>\$ (63,026)</u> | <u>\$ 0</u> | <u>\$ 1,253,729</u> |

Depreciation expense was charged to programs of the primary government as follows:

|                                 |                  |
|---------------------------------|------------------|
| <u>Governmental Activities</u>  |                  |
| Public Safety                   | \$ 2,989         |
| Public Works                    | 17,183           |
| Recreation and Cultural         | <u>2,763</u>     |
| Total Governmental Activities   | <u>\$ 22,935</u> |
| <u>Business-Type Activities</u> |                  |
| Water                           | \$ 34,298        |
| Sewer                           | <u>33,899</u>    |
| Total Business-Type Activities  | <u>\$ 68,197</u> |

CITY OF HARRISVILLE  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2008

NOTE 4 - CAPITAL ASSETS (CONTINUED)

Capital asset activity of the Harrisville Harbor Commission for the year ended March 31, 2008 was as follows:

|                                      | Balance<br>04/01/07 | Additions          | Deletions        | Balance<br>03/31/08 |
|--------------------------------------|---------------------|--------------------|------------------|---------------------|
| <u>Business-Type Activities</u>      |                     |                    |                  |                     |
| Capital Assets Being Depreciated     |                     |                    |                  |                     |
| Land Improvements                    | \$ 175,804          | \$ 0               | \$ 0             | \$ 175,804          |
| Buildings, Improvements and Docks    | 2,309,878           | 24,500             | 0                | 2,334,378           |
| Machinery and Equipment              | <u>390,257</u>      | <u>40</u>          | <u>191,907</u>   | <u>198,390</u>      |
| Subtotal                             | 2,875,939           | 24,540             | 191,907          | 2,708,572           |
| Less Accumulated Depreciation        | <u>687,108</u>      | <u>73,125</u>      | <u>108,364</u>   | <u>651,869</u>      |
| Business-Type Activities Total       |                     |                    |                  |                     |
| Capital Assets - Net of Depreciation | <u>\$ 2,188,831</u> | <u>\$ (48,585)</u> | <u>\$ 83,543</u> | <u>\$ 2,056,703</u> |

NOTE 5 - LONG-TERM LIABILITIES

Primary Government:

A. Bonds Payable

|   | <u>Governmental</u> | <u>Business-Type</u> |
|---|---------------------|----------------------|
| \$615,000 General Obligation Water Supply System bonds, dated September 14, 1989 used for the purpose of the construction of a water supply system and improvements. The bonds bear interest at 5% and are due in annual installments through 2029. | \$ 0                | \$ 478,000           |

B. Contracts Payable

\$462,000 Contract Payable with the County of Alcona, through its Board of Public Works, dated March 5, 1976, due in annual installments through January 1, 2015, bearing interest at 5% to finance a portion of the costs for sewage collection and treatment facilities.

The City enacted Ordinance No. 75-1 which authorized the sale of revenue bonds by the County. This ordinance required the establishment of certain funds and accounts. A Receiving Fund is to be used for all incoming revenue. This account has been established. A Bond Reserve Account is to be opened whereby at least \$250 per quarter is to be deposited until there is an accumulated sum of \$30,000. This requirement has been met.

|                          |             |                   |
|--------------------------|-------------|-------------------|
|                          | <u>0</u>    | <u>156,000</u>    |
| Total Primary Government | <u>\$ 0</u> | <u>\$ 634,000</u> |

CITY OF HARRISVILLE  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2008

NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)

C. Changes in Long-Term Liabilities

The following is a summary of long-term debt transactions of the City for the year ended March 31, 2008:

|                                 | <u>Balance</u><br><u>04/01/07</u> | <u>Issues or</u><br><u>Additions</u> | <u>Payments or</u><br><u>Expenditures</u> | <u>Balance</u><br><u>03/31/08</u> | <u>Due Within</u><br><u>One Year</u> |
|---------------------------------|-----------------------------------|--------------------------------------|---|-----------------------------------|--------------------------------------|
| <u>Business-Type Activities</u> |                                   |                                      |   |                                   |                                      |
| Primary Government:             |                                   |                                      |   |                                   |                                      |
| Bonds Payable                   | \$ 490,000                        | \$ 0                                 | \$ 12,000                                 | \$ 478,000                        | \$ 12,000                            |
| Contracts Payable               | <u>176,000</u>                    | <u>0</u>                             | <u>20,000</u>                             | <u>156,000</u>                    | <u>0</u>                             |
| Total Primary Government        | <u>\$ 666,000</u>                 | <u>\$ 0</u>                          | <u>\$ 32,000</u>                          | <u>\$ 634,000</u>                 | <u>\$ 12,000</u>                     |

The interest expenditures on long-term obligations for the year were \$33,000.

The annual aggregate maturities for all debt outstanding as of March 31, 2008 are as follows:

Primary Government

| <b>Bonds Payable</b>     | <u>Governmental Activities</u> |                 | <u>Business-Type Activities</u> |                   | <u>Total</u>      |
|--------------------------|--------------------------------|-----------------|---------------------------------|-------------------|-------------------|
|                          | <u>Principal</u>               | <u>Interest</u> | <u>Principal</u>                | <u>Interest</u>   |                   |
| 2008                     | \$ 0                           | \$ 0            | \$ 12,000                       | \$ 23,900         | \$ 35,900         |
| 2009                     | 0                              | 0               | 13,000                          | 23,300            | 36,300            |
| 2010                     | 0                              | 0               | 14,000                          | 22,650            | 36,650            |
| 2011                     | 0                              | 0               | 14,000                          | 21,950            | 35,950            |
| 2012                     | 0                              | 0               | 15,000                          | 21,250            | 36,250            |
| 2013 - 2017              | 0                              | 0               | 87,000                          | 94,150            | 181,150           |
| 2018 - 2022              | 0                              | 0               | 111,000                         | 70,250            | 181,250           |
| 2023 - 2027              | 0                              | 0               | 144,000                         | 39,350            | 183,350           |
| 2028 - 2029              | <u>0</u>                       | <u>0</u>        | <u>68,000</u>                   | <u>5,150</u>      | <u>73,150</u>     |
| Total                    | <u>\$ 0</u>                    | <u>\$ 0</u>     | <u>\$ 478,000</u>               | <u>\$ 321,950</u> | <u>\$ 799,950</u> |
| <br>                     |                                |                 |                                 |                   |                   |
| <b>Contracts Payable</b> | <u>Governmental Activities</u> |                 | <u>Business-Type Activities</u> |                   | <u>Total</u>      |
|                          | <u>Principal</u>               | <u>Interest</u> | <u>Principal</u>                | <u>Interest</u>   |                   |
| 2008                     | \$ 0                           | \$ 0            | \$ 0                            | \$ 3,900          | \$ 3,900          |
| 2009                     | 0                              | 0               | 21,000                          | 7,275             | 28,275            |
| 2010                     | 0                              | 0               | 22,000                          | 6,200             | 28,200            |
| 2011                     | 0                              | 0               | 22,000                          | 5,100             | 27,100            |
| 2012                     | 0                              | 0               | 22,000                          | 4,000             | 26,000            |
| 2013 - 2015              | <u>0</u>                       | <u>0</u>        | <u>69,000</u>                   | <u>5,325</u>      | <u>74,325</u>     |
| Total                    | <u>\$ 0</u>                    | <u>\$ 0</u>     | <u>\$ 156,000</u>               | <u>\$ 31,800</u>  | <u>\$ 187,800</u> |

CITY OF HARRISVILLE  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2008

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real property and tangible personal property located in the City. Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the County tax rolls. For the current year, the taxable value for properties located within the City was \$16,330,037. The tax rates were 6.0032 mills for operations, and 3.1000 mills for debt retirement.

NOTE 7 - OPERATING TRANSFERS

During the year ended March 31, 2008, the following transfers were made:

| <u>Description</u>        | <u>Operating<br/>Transfers In</u> | <u>Operating<br/>Transfers Out</u> |
|---------------------------|-----------------------------------|------------------------------------|
| <u>Major Funds</u>        |                                   |                                    |
| Major Governmental Funds: |                                   |                                    |
| General Fund              | \$ 0                              | \$ 12,367                          |
| Major Street Fund         | 0                                 | 7,593                              |
| Minor Street Fund         | 7,593                             | 0                                  |
| Fire Protection Fund      | 12,367                            | 0                                  |
| Total Major Funds         | <u>\$ 19,960</u>                  | <u>\$ 19,960</u>                   |

During the year ended March 31, 2008, the following individual fund transfers were made:

| <u>Fund</u>          | <u>Transfer In</u> | <u>Fund</u>       | <u>Transfer Out</u> |
|----------------------|--------------------|-------------------|---------------------|
| Minor Street Fund    | \$ 7,593           | Major Street Fund | \$ 7,593            |
| Fire Protection Fund | <u>12,367</u>      | General Fund      | <u>12,367</u>       |
| Total                | <u>\$ 19,960</u>   | Total             | <u>\$ 19,960</u>    |

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 8 - UNEMPLOYMENT COMPENSATION

The City is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the City must reimburse the Employment Agency for all benefits charged against the City. Accrued unemployment compensation was \$0 as of March 31, 2008.

NOTE 9 - RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for health insurance claims, and participates in the Michigan Townships' Participating Plan for claims relating to property, liability, wrongful acts, automobile, crime and inland marine and the Michigan Municipal workers compensation fund risk pool for claims relating to workers compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

CITY OF HARRISVILLE  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2008

NOTE 9 - RISK MANAGEMENT (CONTINUED)

The Michigan Townships' Participating Plan operates as an insurance purchasing pool for local units of government in Michigan. The Plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.

The Michigan Municipal Workers Compensation Fund program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HARRISVILLE  
Alcona County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
GENERAL FUND  
For the Year Ended March 31, 2008

|   | Original<br>Budget | Final<br>Amended<br>Budget | Actual            | Variance -<br>Favorable<br>(Unfavorable) |
|---|--------------------|----------------------------|-------------------|--|
| <u>Revenue</u>  |                    |                            |                   |  |
| Property Taxes  | \$ 103,000         | \$ 102,820                 | \$ 106,428        | \$ 3,608                                 |
| State Revenue   | 42,500             | 42,750                     | 42,752            | 2  |
| Licenses and Permits                                  | 150                | 50                         | 95                | 45                                       |
| Charges for Services                                  | 84                 | 84                         | 84                | 0  |
| Fines and Forfeits                                    | 500                | 0                          | 0                 | 0  |
| Interest and Rentals                                  | 13,560             | 14,560                     | 28,348            | 13,788                                   |
| Other Revenue   | 17,715             | 19,120                     | 20,227            | 1,107                                    |
| Total Revenue   | <u>177,509</u>     | <u>179,384</u>             | <u>197,934</u>    | <u>18,550</u>                            |
| <u>Expenditures</u>                                   |                    |                            |                   |  |
| Current:  |                    |                            |                   |  |
| General Government:                                   |                    |                            |                   |  |
| Chief Executive                                       | 9,880              | 9,165                      | 9,165             | 0  |
| Financial and Tax Administration                      | 34,864             | 37,264                     | 37,008            | 256                                      |
| Other General Government                              | 67,900             | 72,415                     | 71,744            | 671                                      |
| Public Safety   | 2,000              | 2,000                      | 1,948             | 52                                       |
| Public Works  | 12,800             | 13,910                     | 13,885            | 25                                       |
| Community and Economic Development                    | 1,420              | 1,310                      | 1,202             | 108                                      |
| Recreation and Cultural                               | 24,515             | 28,530                     | 28,244            | 286                                      |
| Total Expenditures                                    | <u>153,379</u>     | <u>164,594</u>             | <u>163,196</u>    | <u>1,398</u>                             |
| Excess of Revenue Over Expenditures                   | 24,130             | 14,790                     | 34,738            | 19,948                                   |
| <u>Other Financing Uses</u>                           |                    |                            |                   |  |
| Operating Transfers Out                               | <u>(15,025)</u>    | <u>(12,425)</u>            | <u>(12,367)</u>   | <u>58</u>                                |
| Excess of Revenue Over Expenditures and Other<br>Uses | 9,105              | 2,365                      | 22,371            | 20,006                                   |
| Fund Balances - Beginning of Year                     | <u>414,278</u>     | <u>414,278</u>             | <u>414,278</u>    | <u>0</u>                                 |
| Fund Balances - End of Year                           | <u>\$ 423,383</u>  | <u>\$ 416,643</u>          | <u>\$ 436,649</u> | <u>\$ 20,006</u>                         |



CITY OF HARRISVILLE  
Alcona County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
MAJOR STREET FUND - SPECIAL REVENUE FUND  
For the Year Ended March 31, 2008

|   | Original<br>Budget | Final<br>Amended<br>Budget | Actual            | Variance -<br>Favorable<br>(Unfavorable) |
|---|--------------------|----------------------------|-------------------|--|
| <u>Revenue</u>  |                    |                            |                   |  |
| State Revenue   | \$ 38,200          | \$ 33,400                  | \$ 33,429         | \$ 29                                    |
| Interest and Rentals  | 500                | 850                        | 5,144             | 4,294                                    |
| Other Revenue   | <u>150</u>         | <u>170</u>                 | <u>173</u>        | <u>3</u>                                 |
| Total Revenue   | 38,850             | 34,420                     | 38,746            | 4,326                                    |
| <u>Expenditures</u>   |                    |                            |                   |  |
| Current:  |                    |                            |                   |  |
| Public Works  | <u>22,238</u>      | <u>32,418</u>              | <u>32,005</u>     | <u>413</u>                               |
| Excess of Revenue Over Expenditures                           | 16,612             | 2,002                      | 6,741             | 4,739                                    |
| <u>Other Financing Uses</u>                                   |                    |                            |                   |  |
| Operating Transfers Out                                       | <u>(8,250)</u>     | <u>(7,600)</u>             | <u>(7,593)</u>    | <u>7</u>                                 |
| Excess of Revenue Over (Under) Expenditures and<br>Other Uses | 8,362              | (5,598)                    | (852)             | 4,746                                    |
| Fund Balances - Beginning of Year                             | <u>119,019</u>     | <u>119,019</u>             | <u>119,019</u>    | <u>0</u>                                 |
| Fund Balances - End of Year                                   | <u>\$ 127,381</u>  | <u>\$ 113,421</u>          | <u>\$ 118,167</u> | <u>\$ 4,746</u>                          |

CITY OF HARRISVILLE  
Alcona County, Michigan

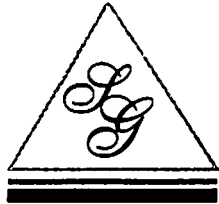
STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
MINOR STREET FUND - SPECIAL REVENUE FUND  
For the Year Ended March 31, 2008

|  | Original<br>Budget | Final<br>Amended<br>Budget | Actual            | Variance -<br>Favorable<br>(Unfavorable) |
|--|--------------------|----------------------------|-------------------|--|
| <u>Revenue</u>   |                    |                            |                   |  |
| State Revenue  | \$ 12,950          | \$ 11,820                  | \$ 11,830         | \$ 10                                    |
| Interest and Rentals   | 250                | 1,125                      | 5,329             | 4,204                                    |
| Other Revenue  | <u>100</u>         | <u>80</u>                  | <u>89</u>         | <u>9</u>                                 |
| Total Revenue  | 13,300             | 13,025                     | 17,248            | 4,223                                    |
| <u>Expenditures</u>  |                    |                            |                   |  |
| Current:   |                    |                            |                   |  |
| Public Works   | <u>17,993</u>      | <u>22,723</u>              | <u>22,279</u>     | <u>444</u>                               |
| Excess of Revenue Over (Under) Expenditures                      | (4,693)            | (9,698)                    | (5,031)           | 4,667                                    |
| <u>Other Financing Sources</u>                                   |                    |                            |                   |  |
| Operating Transfers In   | <u>8,250</u>       | <u>7,590</u>               | <u>7,593</u>      | <u>3</u>                                 |
| Excess of Revenue and Other Sources Over (Under)<br>Expenditures | 3,557              | (2,108)                    | 2,562             | 4,670                                    |
| Fund Balances - Beginning of Year                                | <u>119,717</u>     | <u>119,717</u>             | <u>119,717</u>    | <u>0</u>                                 |
| Fund Balances - End of Year                                      | <u>\$ 123,274</u>  | <u>\$ 117,609</u>          | <u>\$ 122,279</u> | <u>\$ 4,670</u>                          |

CITY OF HARRISVILLE  
Alcona County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
FIRE PROTECTION FUND - SPECIAL REVENUE FUND  
For the Year Ended March 31, 2008

|  | Original<br>Budget | Final<br>Amended<br>Budget | Actual           | Variance -<br>Favorable<br>(Unfavorable) |
|--|--------------------|----------------------------|------------------|--|
| <u>Revenue</u>   |                    |                            |                  |  |
| Contributions from Local Units                           | \$ 28,194          | \$ 28,194                  | \$ 24,734        | \$ (3,460)                               |
| Charges for Services                                     | 6,500              | 6,500                      | 6,500            | 0  |
| Other Revenue  | <u>4,600</u>       | <u>4,600</u>               | <u>4,727</u>     | <u>127</u>                               |
| Total Revenue  | 39,294             | 39,294                     | 35,961           | (3,333)                                  |
| <u>Expenditures</u>                                      |                    |                            |                  |  |
| Current:   |                    |                            |                  |  |
| Public Safety  | <u>48,096</u>      | <u>48,096</u>              | <u>39,920</u>    | <u>8,176</u>                             |
| Excess of Revenue Over (Under) Expenditures              | (8,802)            | (8,802)                    | (3,959)          | 4,843                                    |
| <u>Other Financing Sources</u>                           |                    |                            |                  |  |
| Operating Transfers In                                   | <u>8,802</u>       | <u>8,802</u>               | <u>12,367</u>    | <u>3,565</u>                             |
| Excess of Revenue and Other Sources Over<br>Expenditures | 0                  | 0                          | 8,408            | 8,408                                    |
| Fund Balances - Beginning of Year                        | <u>53,790</u>      | <u>53,790</u>              | <u>53,790</u>    | <u>0</u>                                 |
| Fund Balances - End of Year                              | <u>\$ 53,790</u>   | <u>\$ 53,790</u>           | <u>\$ 62,198</u> | <u>\$ 8,408</u>                          |



*Stephenson, Gracik & Co., P.C.*

Certified Public Accountants & Consultants

Alan J. Stephenson, CPA  
Gerald D. Gracik Jr., CPA  
James J. Gracik, CPA  
Donald W. Brannan, CPA  
Kyle E. Troyer, CPA  
Herman A. Bertuleit, CPA

September 16, 2008

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Members of the City Council  
City of Harrisville  
Alcona County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Harrisville, Alcona County, Michigan, as of and for the year ended March 31, 2008, which collectively comprise the City of Harrisville's basic financial statements and have issued our report thereon dated September 16, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Harrisville's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Harrisville's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Harrisville's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified two deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Harrisville's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Harrisville's financial statements that is more than inconsequential will not be prevented or detected by the City of Harrisville's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

**Financial Statement Preparation**

The City of Harrisville prepares various financial information throughout the year to assess operations and the financial condition of the City. However, prior to the closing of the year end, various entries material to the financial statements were proposed by our firm. Also, the City relies on our firm to assist in preparing the annual financial report in accordance with Generally Accepted Accounting Principles.

Members of the City Council  
City of Harrisville  
September 16, 2008

The City of Harrisville has individuals on staff to review that the financial report is accurate and the financial information reflects the recording of the proposed entries, however, not to review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the City is considered to have a significant control deficiency, since reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the City would not be in a position to detect the errors or omissions.

#### Separation of Duties in the Performance of Functions

Due to the limited number of staff of the City, there is an absence of appropriate segregation of duties. The clerk receives cash, has control over non-cash accounting records and writes and signs checks. We recommend that the cash receipts and cash disbursements functions be handled by different individuals. Cash receiving should be centralized in a person without authority to sign checks and without access to noncash accounting records.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Harrisville's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above to be material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Harrisville's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

View of Responsible Officials and Planned Corrective Actions:

#### Financial Statement Preparation

The City has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the City to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

#### Separation of Duties in the Performance of Functions

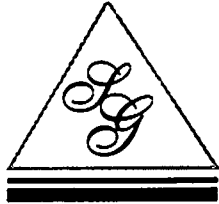
The City Clerk and Treasurer will review their current duties and analyze possible areas for changes in functions performed by specific individuals in order to strengthen internal control.

The City of Harrisville's responses to the findings identified in our audit are described above. We did not audit the City of Harrisville's responses and, accordingly, we express no opinion on them.

Members of the City Council  
City of Harrisville  
September 16, 2008

This report is intended solely for the information and use of management, the Members of the City Council, and the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

*Stephenson, Grubb & Co., P.C.*



*Stephenson, Gracik & Co., P.C.*

Certified Public Accountants & Consultants

Alan J. Stephenson, CPA  
Gerald D. Gracik Jr., CPA  
James J. Gracik, CPA  
Donald W. Brannan, CPA  
Kyle E. Troyer, CPA  
Herman A. Bertuleit, CPA

September 16, 2008

Members of the City Council  
City of Harrisville  
Alcona County, Michigan

Dear Council Members:

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Harrisville for the year ended March 31, 2008, and have issued our report thereon dated September 16, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated January 10, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the City of Harrisville. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City of Harrisville's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated January 10, 2008 and in our meeting about planning matters on May 14, 2008.

Significant Audit Findings

**Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Harrisville are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Members of the City Council  
City of Harrisville  
September 16, 2008  
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### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The audit adjustments, which include material misstatements detected as a result of audit procedures, were provided to and corrected by management.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated September 16, 2008.

### **Management Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Other Audit Findings or Issues**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

In planning and performing our audit of the financial statements of the City of Harrisville for the year ended March 31, 2008, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. As a result of our consideration of the internal controls and tests of compliance as described in the third and fourth paragraphs, we offer the following recommendations for consideration.



Members of the City Council  
City of Harrisville  
September 16, 2008  
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Financial Statement Preparation

The City of Harrisville prepares various financial information throughout the year to assess operations and the financial condition of the City. However, prior to the closing of the year end, various entries material to the financial statements were proposed by our firm. Also, the City relies on our firm to assist in preparing the annual financial report in accordance with Generally Accepted Accounting Principles.

The City of Harrisville has individuals on staff to review that the financial report is accurate and the financial information reflects the recording of the proposed entries, however, not to review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the City is considered to have a significant control deficiency, since reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the City would not be in a position to detect the errors or omissions.

Separation of Duties in the Performance of Functions

Due to the limited number of staff of the City, there is an absence of appropriate segregation of duties. The clerk receives cash, has control over non-cash accounting records and writes and signs checks. We recommend that the cash receipts and cash disbursements functions be handled by different individuals. Cash receiving should be centralized in a person without authority to sign checks and without access to noncash accounting records.

We wish to express our appreciation for the cooperation and courtesies extended our staff by management and employees of City of Harrisville .

This information is intended solely for the use of management, the Members of the City Council , and the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

*Stephenson, Grainh & Co., P.C.*